

Form 10-K

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549**

FORM 10-K

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal years ended December 31, 2003 and 2002,
including a restatement of previously issued consolidated financial statements
for the fiscal years ended December 31, 2001 and 2000

Commission File Number 1-10315

HealthSouth Corporation

(Exact Name of Registrant as Specified in its Charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

63-0860407
(I.R.S. Employer Identification No.)

One HealthSouth Parkway
Birmingham, Alabama
(Address of Principal Executive Offices)

35243
(Zip Code)

Registrant's Telephone Number, Including Area Code: (205) 967-7116

Securities Registered Pursuant to Section 12(b) of the Act:

None

Securities Registered Pursuant to Section 12(g) of the Act:

Common Stock, \$.01 Par Value

Indicate by check mark whether the registrant (1) has filed all Reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such Reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☐ No ☒

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒

As of May 31, 2005, there were outstanding 397,063,445 shares of common stock of the registrant, net of treasury shares. As of June 30, 2004, the aggregate market value of common stock held by nonaffiliates was approximately \$2.3

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Until November 2002, MCD purchased equipment and supplies from third party vendors for resale, and we paid MCD 105% of its cost for the purchase of equipment and supplies purchased through MCD, with the 5% margin intended to compensate MCD for the use of its software and inventory management services. Beginning in November 2002, we began paying MCD a flat annual fee (equal to \$5 million for the first year of the arrangement, payable in equal monthly installments, and declining thereafter) for the use of its software and systems, and we resumed paying equipment and supply vendors directly. We were MCD's primary customer. We purchased equipment and supplies from MCD in the total approximate amount of \$74.6 million in 2000, \$100 million in 2001, \$89.4 million in 2002, and \$2.1 million in 2003.

We also provided a guarantee for \$20 million of MCD's debt to UBS Warburg in 2001. In 2002, we advanced \$9.2 million to MCD in the form of loan.

In September 2003, UBS Warburg called its loan to MCD. We have recognized a liability under the terms of the guarantee as of September 30, 2003, but, as of December 31, 2004, we have not paid the amounts due under the terms of the guarantee to UBS Warburg. See Note 10, *Long-Term Debt*, to our accompanying consolidated financial statements. We reserved the full amount of the advance to and our investment in MCD in September 2003.

Montagu Newhall Global Partners, L.P.

From 2001 through 2003, we invested approximately \$1.8 million in Montagu Newhall Global Partners, L.P. ("Montagu Newhall"). Montagu Newhall is a venture capital fund that was co-founded by C. Ashton Newhall, the son of Charles W. Newhall III. Mr. Charles Newhall had an investment of over \$200,000 in Montagu Newhall, and his venture capital firm, NEA, invested over \$2 million in Montagu Newhall through one of its funds. In addition, Mr. Charles Newhall acted on the Advisory Board and the Investment Committee of Montagu Newhall. In 2003, we sold our investment in Montagu Newhall for \$154,000 and realized a net loss of approximately \$1.6 million.

OrthoRx

In 2002, we invested a total of approximately \$4.5 million in OrthoRx, Inc., which was a joint venture between HealthSouth and OrthoRx International N.V. As of December 31, 2002, we owned approximately 48% of the outstanding capital stock of OrthoRx. Richard M. Scrushy, Weston L. Smith, and William G. Hicks were also investors in OrthoRx, and together owned approximately 2% of the outstanding capital stock of OrthoRx as of December 31, 2002. As part of the initial financing, Mr. Hicks and Larry D. Taylor became OrthoRx directors.

In June 2003, we sold our ownership in OrthoRx to an unrelated financial buyer for approximately \$3 million and realized a net loss of approximately \$1.2 million. Services purchased from OrthoRx were less than \$20,000 during each of 2002 and 2003.

Pathology Partners

From 1998 through 2003, we invested approximately \$3.2 million in Pathology Partners, Inc., a privately held pathology service company. As of December 31, 2002, we owned approximately 15.5% of the company on a fully diluted basis. William G. Hicks and James P. Bennett served as directors of Pathology Partners. In addition, as of December 31, 2002, the following related parties held the following approximate ownership in Pathology Partners: James P. Bennett (6.48%), Patrick A. Foster (.24%), William G. Hicks (.8%), Lawrence R. House (.04%), Michael D. Martin (.31%), and Richard M. Scrushy (4.28%). In 2002 and 2003, we purchased pathology services from Pathology Partners in the following approximate amounts: 2002 (\$94,000) and 2003 (\$100,000). In 2003, we sold our ownership in Pathology Partners for approximately \$4.5 million.

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Richard M. Scrushy, Michael D. Martin and Larry D. Striplin, Jr. were initial directors of Capstone. Mr. Scrushy was also Chairman of the Board of Capstone. In November 1998, HealthCare Realty Trust acquired Capstone, and it ceased independent operations.

First Cambridge HCI Acquisitions, LLC

In December 2001, HealthSouth entered into an agreement with HealthCare Capital Investors, LLC ("HCI") to sell and lease back land, buildings, and improvements associated with 13 HealthSouth facilities. The sale price for the property was approximately \$81.5 million. Immediately following that transaction, HCI assigned all its rights and duties under the sale-leaseback agreement to First Cambridge. On the same day, we signed a master lease agreement with First Cambridge to lease back the 13 real properties from First Cambridge for 15 years. On December 27, 2001, First Cambridge financed this transaction with UBS AG ("UBS") with the proceeds from an \$82.5 million promissory note. We guaranteed First Cambridge's debt for the financing of this transaction. During 2002, we paid approximately \$9.5 million to First Cambridge under the terms of the master lease agreement.

First Cambridge was a partnership established by five members of our senior management team and two outside investors. The following table sets forth the approximate ownership of First Cambridge by HealthSouth directors, executive officers, and officers at the time of the sale-leaseback transaction.

	December 31, 2001
Richard M. Scrushy ⁽¹⁾	20%
William T. Owens	10%
William W. Horton	5%
Malcolm E. McVay	5%
Weston L. Smith	5%
Richard Davis ⁽²⁾	3%
Jason M. Brown	1%
Total	49%

(1) Shares held in Mr. Scrushy's daughter's name.

(2) Shares held in Mr. Davis' brother's name.

First Cambridge defaulted on its loan to UBS and UBS demanded payment from HealthSouth under the terms of the guarantee agreement. As a result, we entered into a subsequent repurchase agreement with First Cambridge to effectively unwind the original agreement at a cost of \$87.5 million. The repurchase agreement provided for our payment of approximately \$82.5 million to UBS to repay the First Cambridge loan and our payment of approximately \$5 million to First Cambridge to repurchase the 13 HealthSouth facilities originally sold to First Cambridge. We recognized an \$8.8 million loss on payment of the UBS loan guarantee reflecting the difference between the amount due to First Cambridge and the amount paid to UBS on December 30, 2002.

Transactions Involving Vendors*AmerisourceBergen Corporation*

From 2000 to 2003, we purchased pharmaceutical supplies from AmerisourceBergen Corporation (which was created through the 2001 merger of AmeriSource Health Corp. and Bergen Brunswig Corp.) in the following amounts: 2000 (\$65,798,730), 2001 (\$64,957,559), 2002 (\$66,970,374), and 2003 (\$86,1725,715). George H. Strong was a director of AmeriSource Health Corp. from 1992 until its merger with Bergen Brunswig Corp. in 2001.